

Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 ARA-06 SP-02 INR-05 CIAE-00 NSC-05

NSCE-00 L-01 /037 W

----- 066067

R 262130Z FEB 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 4595

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 1372

LIMDIS

E.O. 11652: GDS

TAGS: ENRG EINV EC

SUBJECT: UPDATE OF STATUS OF TEXACO-GULF PROBLEMS

REF: QUITO 375

1. SUMMARY: GOE BECOMING BEHIND IN PAYMENTS TO TEXACO AND GULF FOR INVESTMENT AND PRODUCTION. TEXACO-GULF PRINCIPALS ARE CURRENTLY SEEKING AN APPOINTMENT WITH PRESIDENT RODRIGUEZ LARA TO LAY THE FACTS BEFORE HIM AND TO SEEK REDRESS. WITHOUT SUCH REDRESS IT IS BECOMING INCREASINGLY POSSIBLE THAT TEXACO-GULF WILL STRINGENTLY REDUCE OR STOP LIVINGS OF ECUADOREAN CRUDE. THE RESULT MIGHT WELL BE A BUILD-UP OF IRRESISTIBLE PRESSURES FOR A SPEEDY NATIONALIZATION OF TEXACO-GULF OPERATIONS IN ECUADOR. SUCH AN OUTCOME IS IN THE INTEREST OF NEITHER SIDE, AND THE EMBASSY IS HOPEFUL THAT AN ACCOMMODATION WILL BE FOUND. END SUMMARY.

2. THE FOLLOWING REPORT IS BASED PRIMARILY ON CONVERSATIONS HELD IN WASHINGTON BY DCM AND DEPOFFS WITH SHIELDS OF TEXACO AND WYCHE AND ORTIZ OF GULF ON FEBRUARY 6 AND CONVERSATIONS SUBSEQUENTLY HELD IN QUITO WITH TEXACO MANAGER MARTINEZ AS RECENTLY AS FEBRUARY 25.

3. IN EARLY FEBRUARY SHIELDS, WYCHE AND ORTIZ WERE CALLED IN
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BY ECUADOREAN AMBASSADOR TO THE U.S. CARDENAS TO BRING HIM UP

TO DATE ON THE CURRENT PETROLEUM PROBLEMS IN ECUADOR. THEY PRESENTED CARDENAS WITH A WRITTEN AND ORAL SUMMARY INVOLVING THE FOLLOWING POINTS:

A. THE CASH FLOW SYSTEM WHEREBY TEXACO AND GULF DEPOSIT \$13.90 TO THE ACCOUNT OF THE GOE IN THE FNCB IN NEW YORK FOR EACH BARREL LIFTED IS NOT WORKING. TEXACO-GULF MUST ADD TO THIS \$13.90, THEIR ACTUAL PRODUCTION COST WHICH BRINGS TOTAL COSTS TO ABOUT \$15 PER BARREL. THE GOE IS THEN SUPPOSED TO RELEASE TO TEXACO AND GULF AGREED UPON SUMS TO BRING THE TOTAL PER BARREL CHARGES DOWN TO THE \$10 AND SOME ODD CENTS WHICH BECOMES THE GOE TAX AND ROYALTY SHARE. GOE PAYMENTS FROM THIS FUND ARE TOO OFTEN FROZEN OR DELAYED.

B. CASH CALLS WHICH REPRESENT CEPE'S SHARE OF OPERATING COSTS ARE ONLY PAID AFTER LENGTHY AND COSTLY DELAYS. THE LAST TWO PAYMENTS HAVE NOT EVEN INCLUDED THE PIPELINE USE COSTS FOR CEPE CRUDE.

C. PAYMENTS FOR INTERNAL USE CRUDE REMAIN WEEKS AND MONTHS BEHIND.

D. PAYMENTS ON CEPE'S SHARE OF TOTAL INVESTMENT HAVE ALL BUT CEASED. THE ORIGINAL AGREEMENT OF JUNE 6, 1974, CALLED UPON CEPE TO PAY OFR ITS 25 PERCENT OF THE CONSORTIUM IN SEPT. WITH A FINAL PAYMENT IN DECEMBER. A UNILATERAL GOE DECREE MADE IN OCTOBER ALTERED THIS AGREEMENT AND CALLED FOR A PAYMENT IN SEPTEMBER (SIC) WITH FINAL SETTLEMENT THROUGHOUT THE FIRST HALF OF 1975. THUS FAR ONLY THE PAYMENT HAS BEEN RECEIVED.

E. DOLLAR CONVERSION OF SUCRE PAYMENTS TO TEXACO-GULF HAVE BEEN HELD UP AGAIN FOR WEEKS AND MONTHS BY THE CENTRAL BANK, EVEN THOUGH FULL DOCUMENTATION FOR LEGAL CONVERSION IS PRESENTED.

F. THE TECHNICAL LIMITATION SET BY THE GOE ON EXPLOITATION OF THE CONSORTIUM HOLDINGS ARE SERIOUSLY BELOW THE ECONOMIC AND TECHNICAL OPTIMUM FOR THESE FIELDS.

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AS A RESULT THE GOE AND CEPE CURRENTLY ARE INDEBTED TO TEXACO AND GULF FOR A TOTAL OF BETWEEN 40 AND 45 MILLION DOLLARS. TEXACO AND GULF DO NOT FEEL THAT THEY CAN CONTINUE OPERATIONS UNDER THESE CONDITIONS.

4. IN ORDER THAT THE MINISTER OF NATURAL RESOURCES WOULD HAVE NO REASON TO BELIEVE THAT TEXACO AND GULF HAD GONE BEHIND HIS BACK, TEXACO AND GULF SUBSEQUENTLY SENT HIM

A LETTER CONTAINING ALL THE INFORMATION IN THE PACKAGE OF COMPLAINTS THAT IT HAD SUBMITTED TO AMBASSADOR CARDENAS.

5. DURING THE EARLIER PETROLEUM DIFFICULTIES IN NOVEMBER 1974 (SEE QUITO 7013), TEXACO AND GULF HAD SENT A LETTER TO PRESIDENT RODRIGUEZ LARA OUTLINING THEIR PROBLEMS. THEY NEVER RECEIVED A REPLY TO THIS LETTER. IN FEBRUARY OF THIS YEAR THEY SENT A FOLLOW-UP LETTER TO THE PRESIDENT REFERRING TO THE EARLIER LETTER, STATING THAT THE PROBLEMS DISCUSSED THEREIN WERE BECOMING MORE ACUTE, AND SEEKING AN APPOINTMENT FOR THEIR PRINCIPALS IN CORAL GABLES WITH THE PRESIDENT AT HIS EARLIEST CONVENIENCE. THEY HAVE RECEIVED NO DEFINITIVE REPLY BUT UNDERSTAND THAT THERE WILL BE NO APPOINTMENT UNTIL AFTER MARCH 10, WHEN PRESIDENT RODRIGUEZ RETURNS FROM THE OPEC MEETING IN ALGIERS. TEXACO AND GULF INTEND TO USE THIS MEETING TO CLARIFY THEIR CURRENT OPERATING PROBLEMS AND TO INDICATE TO THE PRESIDENT THAT THEY CANNOT INDEFINITELY CONTINUE TO LIFT PETROLEUM UNDER CURRENT CONDITIONS.

6. CURRENT OPERATIONS AND LIFTINGS ARE CONTINUING ON THE BASIS OF THE HOPE THAT THE GOE WILL COME UP WITH AN ECONOMIC PACKAGE RETROACTIVE TO JANUARY 1 THAT WILL MAKE THE OPERATIONS PROFITABLE. IF SUCH AN ARRANGEMENT CANNOT BE AGREED UPON WITHIN A REASONABLY SHORT TIME, TEXACO AND GULF, ACCORDING TO MARTINEZ, CANNOT CONTINUE PRODUCING.

7. THEY ARE MAINTAINING THEIR PRESENT LIFTINGS AT A LEVEL SUFFICIENT ONLY TO KEEP TEXACO AND GULF FROM EXCEEDING THEIR SHARE OF THE STORAGE CAPACITY AT BALAO. SO LONG AS CEPE MAKES SOME LIFTING THEN TEXACO AND GULF MUST LIFT A MINIMUM TO MAINTAIN THIS SHARE RATIO.

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8. WITH RESPECT TO THE PRICING OF ECUADOREAN CRUDE, CEPE, BY SEEKING OUT SMALL SPOT BUYERS, HAS BEEN ABLE TO SELL A CERTAIN AMOUNT OF CRUDE AT PRICES SOMEWHAT ABOVE \$11.50 PER BARREL. TEXACO-GULF CANNOT PLACE THEIR CRUDE IN THE FIRM, LARGER TRADITIONAL MARKETS AT THIS PRICE. IF TEXACO-GULF COMPETE WITH CEPE FOR THE SMALLER SPOT MARKETS, THEY ARE CHARGED WITH TORPEDOING CEPE OPERATIONS.

9. ACTIVITY IN THE CONSORTIUM PRODUCTION FIELDS IS CURRENTLY LIMITED TO MAINTENANCE AND LIMITED PRODUCTION. THERE ARE ONLY ONE PRODUCTION RIG AND ONE WORK-OVER RIG IN OPERATION AS OPPOSED TO FIVE PRODUCTION AND FOUR WORK-OVER RIGS IN 1973. THE CONTRACTORS-OWNERS OF THE EXCESS RIGS ARE NOW TRYING TO GET EXPORT PERMITS TO REMOVE THE RIGS FROM THE COUNTRY. SOME OF THESE RIGS ARE IN

GUAYAQUIL AND AT LEAST ONE HAS NOW BEEN CONTRACTED BY
CAYMAN FOR EXPLORATION IN ITS OWN CONCESSION FIELDS.

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10. COMMENT: THE ABOVE INFORMATION, COMING AS IT DOES FROM COMPANY SOURCES, ADMITTEDLY REFLECTS THEIR OWN POSITION VIS-A-VIS THE GOE AND CEPE. IT MAY BE MAINLY A NEGOTIATING POSITION WHICH THEY INTEND TO USE TO FORCE A MORE FAVORABLE ECONOMIC ARRANGEMENT IN ECUADOR. NEVER-
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THELESS, COMPANY OFFICIALS GIVE THE APPEARANCE TODAY OF BEING MORE DISHEARTANED WITH OPERATIONS IN ECUADOR THAN BEFORE. THEY SEEM ALMOST RESIGNED TO A POSSIBLE SHUT-DOWN OF OPERATIONS. SUCH A SHUT-DOWN WOULD PROBABLY RESULT IN A VIOLENT REACTION AGSINT THE COMPANIES AND EQUALY VIOLENT GOE COUNTERMEASURES, INCLUDING A SPEEDUP OF THE NATIONALIZATION PROCESS.

11. DESPITE THIS RATHER GLOOMY PICTURE, THE EMBASSY AS OF NOW BELIEVES THAT SOME ACCOMODATION WILL PROBABLY BE REACHED. IN THE FIRST PLACE, WITH THE EXCEPTION OF A FEW HOTHEADS IN CEPE AND THE MINISTRY OF NATURAL RESOURCES, BOTH SIDES RECOGNIZE THAT AN ACCOMMODATION IS IN THEIR INTERESTS. MOREOVER, THE TEXACO-GULF "PACKAGE" OF COMPLAINTS CONTAINS A NUMBER OF ITEMS, SUCH AS DOLLAR CONVERSION AND CASH FLOW SYSTEM, WHRE THE GOE CAN FAIRLY EASILY BE RESPONSIVE. FINALLY, WHEN IT COMES TO THE CRUNCH, THE GOE USUALLY CAN FIND A FACE-SAVING, IF OFTEN COMPLEX, FORMULA WHEN IT IS CLEARLY IN THEIR INTEREST TO DO SO. THIS IS LIKELY TO BE ONE OF THOSE TIMES.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, DEBT REPAYMENTS, EXPORT PRICES, TAXES, NEGOTIATIONS, SUBSIDIARIES
Control Number: n/a
Copy: SINGLE
Draft Date: 26 FEB 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: johnsorg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975QUITO01372
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750068-1019
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750211/aaaaajfa.tel
Line Count: 316
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 75 QUITO 375
Review Action: RELEASED, APPROVED
Review Authority: johnsorg
Review Comment: n/a
Review Content Flags:
Review Date: 29 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 JUL 2003 by ShawDG>; APPROVED <20 NOV 2003 by johnsorg>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UPDATE OF STATUS OF TEXACO-GULF PROBLEMS
TAGS: ENRG, EINV, EC, US, TEXACO, GULF, CEPE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006